WAR ASSETS ADMINISTRATION
REGION 5
CHICAGO, ILLINOIS

OPERATIONS DIGEST

October 15, 1947

Prepared
by

Organization and Methods Division,
Statistics Branch

Table 1
Operating Statement
Consumer & Capital Goods
January-September 1947

	End of Month Inventory $	Acquisitions $	Disposals $	Recovery Rate %
January	308,887,000	2,627,000	37,438,000	26
February	318,538,000	29,167,000	19,515,000	21
March	308,477,000	12,362,000	22,147,000	22
April	306,313,000	20,623,000	22,786,000	18
May	284,432,000	-1,145,000	20,732,000	14
June	274,975,000	23,954,000	33,407,000	11
July	177,716,000	-70,024,000	27,234,000	14
August	242,052,000	83,660,000	19,320,000	16
September	245,070,000	23,646,000	20,624,000	16

Inventories

Region V's IBM inventory showed no appreciable net change in September, the September 30 inventory being 1% larger than that of August 31. Several specific developments in September concerning the status of inventory, however, are notable:

(1) Region V acquired more property ($36 million) through owning-agency declarations in September than in any month since November 1946.
(2) Owning-agencies withdrew less property ($1 million) in September than in any month in the last year.
(3) Transfers of property into the suspense-inventory account exceeded transfers out of this account by $12 million.
(4) Transfers of property to Region V from other regions exceeded transfers from Region V to other regions by $0.7 million. This was the first time in the last 7 months that more property was transferred into the region than out.

Disposals

Disposals in September ($20.6 million) were 19% below average monthly disposals in the January-August period. Transfers to the armed forces under the JAMIAT program were again large, amounting to $7 million or 35% of total disposals.

Recovery Rate

The region realized a recovery rate of 16% on its $11.6 million of sales in September. This 16% is equal to the recovery rate of August and higher than the recovery rates of May, June, and July. The relatively favorable recovery rate in September arose from two factors:

(1) Large sales of textile fabrics and iron & steel -- 30% of total regional sales at selling prices -- had a recovery rate of 38%.
(2) Scrap and electronic sales which realize very low recovery rates were much smaller in September than in June and July.

Targets

In September, Region V fell 60% short of the $50 million disposal-target set by the Zone office. For the two months, August and September, regional disposals missed the disposal target by $50 million. Thus, to meet the $210 million target set for the August-December period, Region V will have to dispose of $57 million of property per month in the October-December period.

In recent months disposals have averaged about 25% of monthly offerings. If this same relationship prevails in the next 3 months, Region V will have to offer for sale almost its entire present IBM inventory ($245 million) to attain the $210 million disposal-target set for the August-December period.

As a group, other regions in Zone 3 exceeded their disposal-targets for August and September by 6%. One reason for this more favorable showing in other regions is that other regions are offering a larger percentage of their inventories for sale. Thus, on October 8 approximately 33% of Region V's firm inventory was unprogrammed whereas for other regions in Zone 3 only 23% of firmed inventory was unprogrammed.

Offerings

Current regional offerings, judged by past standards, are very low. On October 9, inventory definitely scheduled for sale in the month of October amounted only to $31 million. One offering of iron & steel scrap ($12 million) comprised almost 40% of this $31 million. On October 9 the region also had established definite dates for offering in November $5 million of additional inventory.

Income and Expense

Table 2
Income and Expense
September 1947

	Millions of $
Total Income	
Capital & Consumer Goods Sales	$1.90
Real Property Sales	0.50
Rents & Interest	0.64
Total	$3.04
Total Expense	
Salaries & Wages	$1.02
Warehouse Operation Costs	0.15
Rents & Utilities	0.14
Protection & Maintenance of Property	0.12
Plant Clearance	0.09
Miscellaneous Contractual Services	0.08
Supplies & Materials	0.07
Printing & Binding	0.06
Reimbursements to Owning Agencies	0.04
Other	0.04
Total	$1.81
Excess of Income over Expense	$1.23

Regional income and expense both increased slightly in September over August. However, the increase in expense was slightly larger, so that net income in September declined to $1.2 million, a new low. A decrease in real property sales accounted for the entire reduction in income and more than offset increases in income from capital and consumer goods sales and from rents and interest. Although income from capital and consumer goods sales was substantially larger in September than in August, this income was still abnormally low, approximating only 50% of the average monthly income in the January-August 1947 period. The increase in expense in September was spread over most major categories of expense.

Income from the sale of consumer and capital goods in August failed to cover expenses chargeable to the consumer and capital goods inventory, and in September income exceeded expenses by merely one-half million dollars -- a very small margin relative to past months. In future months, Region V may find further difficulty in keeping expenses within income.

Whereas in the January-September 1947 period, machine-tool and motor-vehicle sales accounted for about 40% of total income from consumer and capital goods sales, neither of these sales sections is likely to contribute much to regional income in the future. JANMAT will probably absorb most remaining machine tools of any value. The residue, consisting mainly of over-age and highly specialized tools, will bring little income when sold as scrap. On the other hand, the regional inventory of motor vehicles is now at its lowest level in many months and hence contains little potential income.

The most obvious means of increasing regional income is to offer for sale, at attractive prices, as much as possible of the industrial-equipment inventory. On a reasonable estimate, the industrial-equipment inventory contains over 50% of the potential income remaining in the total consumer and capital goods inventory. This estimate is based on three factors:

(1) The tremendous amount ($78 million) of industrial equipment remaining in the regional inventory.
(2) The better-than-average recovery rate secured on the sale of this equipment in the past.
(3) The assumption that the JANMAT program will not absorb substantial quantities of industrial equipment, other than machine tools.

It should be noted that on October 9 slightly more than 1% of the industrial-equipment inventory was currently offered for sale.

Analysis of Sales

June and July sales ($53 million) were the highest in the last 8 months whereas August and September sales ($17 million) were the lowest in the last year. The sharp differences in the records of these months may be traced to several factors:

(1) Less property was offered for sale in August and September than in June and July.
(2) A smaller percentage of the property offered for sale in August and September was sold than in June and July. On an over-all basis, this factor -- a failure to sell property offered -- was more important in explaining the low level of August and September sales than was the failure to offer sufficient property for sale.

(3) Location sales were a notable exception. A decline in the amount of property offered, rather than a decline in the percentage of offerings sold, accounted for the 40% decline in location sales from June and July to August and September. Actually, locations sold a higher percentage of property offered for sale in August and September than in June and July.

(4) The lower percentage of offerings sold in August and September can be explained, for some products, by the less frequent use of the sealed-bid sale in these months. Sealed-bid sales have generally achieved a far higher disposal-rate than have fixed-price sales.

(5) A decline in scrap and electronic sales in August and September accounted for 50% of the total decline in sales in these months. In turn, the decline in scrap and electronic sales was due primarily to the fact that less scrap and electronic property was offered for sale in August and September than in June and July.

Customer Service

Both the Chicago and Milwaukee Customer Service Centers had better sales records in September than in August. Disposals made through the Chicago Customer Service Center in September amounted to $6.6 million (acquisition cost) or more than double the August figure. The Milwaukee Customer Service Center had disposals of $1.9 million, an 18% increase over August. Approximately 4% of the disposals of the two centers were made from the inventories of other regions.

With the increase in disposals in September, the Chicago Customer Service Center reduced the ratio of its payroll expense to sales income to 2.2% vs. 10.4% in August. Milwaukee's ratio of payroll expense to sales income was 3.7% in both months.

Cancelled Sales

The ratio of cancelled sales to total sales was 22% in August and 9% in September as compared with the regional average of 7% in previous months. The increase in this ratio does not mean that a greater percentage of August and September sales was cancelled than in past months. Normally, several months elapse between the date on which a sale is made and the date on which the cancellation of this sale is recorded in regional accounting records. Hence, most of the cancelled sales processed by the Accounting Division in August and September applied to sales made in previous months. Since sales in previous months were relatively high, cancellations in August and September did not decline proportionately to the sharp decline in August and September sales. Consequently, the ratio of cancelled sales to total sales was greater in August and September than in prior months.

Claims

Slight progress was made in September in reducing the backlog of customer claims against Region V. The number of unsettled claims on September 30 stood at 725 vs. 748 on August 31. Notwithstanding the reduction in total claims, "older" claims -- those over 60 days old -- increased from 344 on August 31 to 379 on September 30. The 725 claims outstanding on September 30 represented a 2-1/2 month backlog of work at the August-September settlement rate.

Overpaid accounts on September 30 numbered 532. These accounts were reduced 10% in the month of September.

Sales Document Backlog

Further progress was made in September in reducing the backlog of sales documents in the Traffic Division. Sales documents in the possession of the Traffic Division for more than 2 weeks numbered 700 on October 10 as compared with 1,580 on September 5 and 2,126 on August 8.

Personnel

Regional personnel on September 30 numbered 2,621 which represented a reduction of 193 employees from August 31. This reduction arose entirely from a decrease in "Regular" employees since "Schedule A" employees increased by 5 in September.

Although WAA employment in Region V is now 40% below the peak employment of last December, this reduction should not in itself hamper disposal operations. In the past, changes in WAA employment and in WAA sales have shown no consistent relationship. Sales have increased in some months in which personnel has been cut sharply while sales have fallen in other months in which personnel has substantially increased. As a general proposition there has, in the past, been no close connection between the number of personnel employed by Region V and the amount of property sold by this region.

Although regional personnel on September 30 stood at its lowest level since June 1946, "separations" -- resignations, discharges, etc. -- were fewer in September than in any month in the last year with the exception of last May. The reduction in Region V's work-force has resulted mainly through a reduction in the hiring of new employees to fill the jobs of employees who resigned. Resignations have averaged 30%-40% of all separations in recent months, and if the rate of recent months continues, approximately 500 employees will resign between October 1 and December 30.

Outlook for Region V

Machine-tool disposal in Region V in the next several months will depend primarily upon the number of tools withdrawn from inventory for the JANMAT program since the Washington office has instructed the regions to withhold practically all machine tools from sale until JANMAT inspectors have had an opportunity to select or reject these tools for inclusion in the armed forces "stand-by" program. The Washington office has estimated that the JANMAT program may absorb 75% of the existing WAA inventory of machine tools.

The JANMAT program, if it does assume sizable proportions, should hasten the final liquidation of WAA since the commercial market for surplus machine tools will deteriorate steadily from now on. The recent machine-tool show, which exhibited new-model machine tools being produced by private industry, was eminently successful both in attendance and sales. It is likely, therefore, that, after seeing the new-model machine-tools, commercial buyers will be more reluctant than ever to buy surplus machine-tools. Moreover, the export market for machine tools, which reached an all-time peak in the first half of 1947, has fallen off and the prospects are for a further decline in the months to come.

Industrial machinery constitutes Region V's largest category of inventory ($78 million) and also the slowest selling in the last 9 months. Notwithstanding the slow rate at which this property has sold in Region V in the past, the sale of this property in the future will be aided by several factors: (1) New industrial equipment is still generally difficult to buy and private firms have a substantial backlog of orders. (2) Prices on new industrial equipment have steadily advanced. For instance, electrical-equipment prices increased 3 times in the first 6 months of this year and are 30% above the January 1947 level. (3) The export market for industrial equipment will probably be least affected of any major category of goods by the general decline in export markets anticipated for coming months since foreign countries will use as much as possible of their limited funds to buy badly needed machinery to reequip their war-devastated industries. It is notable that most other regions have sold their industrial-machinery inventories at a far faster rate than has Region V.

Presumably many millions of dollars of the regional inventory may have to be sold for scrap. A considerable part of the $150 million machine-tool and industrial-equipment inventory is probably so specialized or in so poor a condition that its only value is in its metal content. In addition, much of the $22 million metals inventory consists of long-supply items such as stainless steel, carbon steel, tool steel, and non-ferrous metals of non-standard sizes and shapes. Eventually, several million dollars worth of these metals may have to be scrapped. Thus far in 1947, over $1 million

of hardware, plumbing, and related items have been sold for salvage or scrap and the present $20 million inventory of such products probably contains several additional millions suitable only for scrapping.

The market for iron and steel scrap continues good. In the past month, however, trading in this market has been light since steel mills, the leading buyers, have refused to purchase at the prices asked by the scrap dealers. However, if the mills should begin buying on a large scale in order to accumulate a large scrap inventory for later use in winter months, as is customary in the trade, scrap prices may rise considerably. Even if mills do not store up a scrap inventory for winter use, no substantial drop in iron and steel scrap prices appears likely. So long as general industrial activity remains at its current high level, steel mills will require large quantities of scrap and no great improvement in scrap supply appears likely since practically all sources of supply are now being exploited to the fullest.

Non-ferrous metal scrap has suffered from an inactive market for many months, and the prospects are for no substantial improvement in the near future. Buyers of scrap are not actively seeking new sources of supply and will bid only when sellers of scrap seek them out. Non-ferrous metals comprise Region V's 8th largest sales section, but Region V's sales of these metals have been very light for many months.